IFRS 18: a practical guide to presenting financial performance

A step-by-step guide to preparing for 1 January 2027: what to change, the judgements to make, and what to do now!



How to use this guide

IFRS 18 Presentation and Disclosure in Financial Statements was issued by the International Accounting Standards Board in April 2024. It applies to annual reporting periods beginning on or after **1 January 2027**. Earlier application is permitted, provided the fact is disclosed. IFRS 18 supersedes IAS 1.

The standard responds to consistent feedback from investors:

- financial statements are difficult to compare,
- the performance measures management relies on are not always explained, and,
- the level of detail provided varies widely.

IFRS 18 addresses all three points.

IFRS 18 does not change how results are measured. It changes how performance is presented and understood. Revenue recognition, leases, impairment and provisions are unaffected, and reported profit for the period does not change. What changes is the structure of the statement of profit or loss, the subtotals that must be presented, and the level of detail required in the primary statements and the notes.

Work through the six steps below in order. Each rebuilds part of your reporting or resolves a judgement you will need to have documented, and each closes with the action it implies. The earlier you complete them, the more of the 2026 comparative year you can capture on the new basis as transactions arise, rather than reconstructing it later.

Before you start: does it apply, and where will you feel it?

IFRS 18 sets out general requirements for presentation in the primary financial statements and for disclosure in the notes, together with specific requirements for the statement of financial performance, the statement of financial position and the statement of changes in equity. The presentation and disclosure requirements of other standards supplement it, and IAS 7 continues to govern the statement of cash flows. Check out the boundaries first:

IFRS 18 applies to	IFRS 18 does not apply to
All general-purpose financial statements prepared under IFRS Accounting Standards, consolidated financial statements under IFRS 10 and separate financial statements under IAS 27.	Management commentary and financial reviews by management, which sit outside IFRS Accounting Standards.
Entities of all types and sizes. The terminology suits profit-oriented entities, but it can be adapted by others, including entities without equity.	The statement of cash flows, which remains governed by IAS 7, as amended by IFRS 18.

The effort is not spread evenly. Concentrate your time where the change is greatest:

Financial statement	Change	Principal reason
Statement of profit or loss	Major	New classification categories, two new required subtotals, potential disaggregation and labelling considerations.
Notes	Major	New performance-measure note, expenses by nature, and grouping requirements
Statement of cash flows	Some	Revised starting point and fewer presentation options
Statement of financial position	Some	Affected by the grouping requirements
OCI and changes in equity	Minimal	Largely carried forward from IAS 1

Step 1: Rebuild your statement of profit or loss around five categories

Classify every item of income and expense into one of five categories: **operating, investing, financing, income taxes and discontinued operations** (IFRS 18.47).

- **Operating** is your default. It captures everything not classified elsewhere, including unusual or volatile items. It is meant to show the complete picture of operations for the period, not a measure of recurring performance (IFRS 18.52).
- **Investing** captures income and expenses from assets that generate returns individually and largely independently of an entity's other resources, including: rental income from investment property, dividends from equity investments, the share of results of associates and joint ventures, and income from cash and cash equivalents (IFRS 18.53-58).
- **Financing** captures income and expenses from liabilities arising from transactions that involve only the raising of finance (Type 1 liabilities). For liabilities arising from transaction that do not involve only the raising of finance (Type 2 liabilities), only the financing element, such as the interest expense or the unwinding of a discount on lease and pension liabilities, is classified in the financing category. The remaining income and expenses would be generally classified in the operating category (IFRS 18.59-66).
- **Income taxes** and **discontinued operations** continue to follow IAS 12 and IFRS 5 respectively (IFRS 18.67-68).

Two subtotals become mandatory: **operating profit or loss** and **profit or loss before financing and income taxes**. Many entities already present a measure described as operating profit. The significance of IFRS 18 is that, from 2027, the term will carry the same meaning across entities and provide a consistent starting point for analysis (IFRS 18.69).

Illustrative statement of profit or loss

Category	Line item	€000
Operating	Revenue	1,000
	Cost of sales	(600)
	Gross profit	**400**
	Selling, general and administrative expenses	(150)
	Research and development expenses	(80)
	Other operating income and expenses	(20)
Subtotal	**Operating profit -> REQUIRED**	**150**
Investing	Share of results of associates	(10)
	Interest income on investments	5
Subtotal	**Profit before financing and income taxes -> REQUIRED**	**145**
Financing	Interest expense on borrowings	(30)
	Interest expense on lease liabilities	(5)
	Profit before income taxes	**110**
Income taxes	Income tax expense	(25)
	Profit for the period	**85**

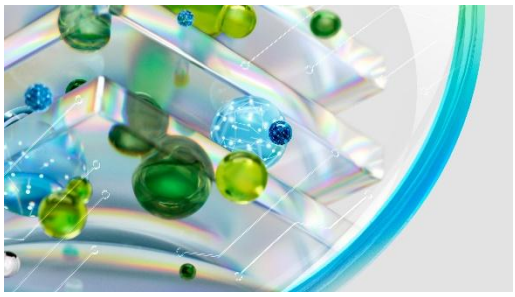
The bottom line is unchanged. The two shaded subtotals are new and, from 2027, carry the same meaning in every set of IFRS financial statements. Line items are illustrative; present additional subtotals (such as gross profit above) where they give a useful structured summary.

Key consideration: Classify foreign exchange differences in the same category as the item that gave rise to them: exchange differences on a bank loan, for example, are financing. Where that would involve undue cost or effort, you may classify them in operating (IFRS 18.B65).

In practice: Classification depends on your main business activity - interest income is investing for a manufacturer but operating for a lender (IFRS 18.B49). That makes Step 2 a prerequisite, not an afterthought.

Do this now: map every income and expense account to one of the five categories, and flag any that cannot be mapped without a manual period-end adjustment.

Step 2: Confirm your main business activity



As classification depends on the entity's assessment of its main business activity, determine your main business activity before finalising the categories (IFRS 18.49). Weigh what generates the majority of your revenue and profit, how the business is described in your strategy and constitutional documents, how management reports internally, where operational resources are deployed, and what investors would reasonably expect.

Key consideration: Entities with a specified main business activity

For a bank, lending is the business itself. Applying the general classification requirements would place its core activity in the financing category, reducing rather than improving the usefulness of the information presented.

IFRS 18 therefore requires entities that invest in assets or provide financing to customers as a main business activity to classify the related income and expenses in the operating category. For a bank, this generally includes the net interest result and the fee and commission result. For an insurer, it generally includes the insurance service result and the net financial result. In most cases, banks will not present a subtotal for profit before financing and income taxes, as it would not provide meaningful information (IFRS 18.49-51).

> **Do this now:** document the main-business-activity assessment and its conclusion as it is a judgement your auditor will expect to see supported, and it governs the whole statement.

Step 3: Identify and explain your management-defined performance measures

If you publish measures that IFRS does not define such as: adjusted profit, adjusted operating profit, adjusted EBITDA, core operating profit etc - test each one against the three conditions below.

Meeting the definition of a **management-defined performance measure (MPM)** is a matter of applying the criteria, not a choice.

	Ask	If the answer is no
1	Is it a subtotal of income and expenses?	It is outside the definition. Free cash flow, net debt, return[1] on equity and customer numbers do not qualify, however prominently reported.
2	Is it used in public communications outside the financial statements?	It is outside the definition. Press releases, investor presentations and management commentary count; oral communications, transcripts of them and social-media posts do not.
3	Does it communicate management's view of an aspect of the entity's performance as a whole?	This is presumed unless you have reasonable and supportable information to rebut it - for example, a measure disclosed solely to meet a regulatory requirement.

Note that subtotals IFRS 18 itself requires or lists: operating profit, profit before financing and income taxes - are **not** MPMs, even though they are subtotals of income and expenses; don't sweep them into the note.

[1] Return on equity may still qualify as an MPM if the return relates to a measure of financial performance **not** disclosed in the financial statements (provided that it meets the other criteria in the IFRS 18 definition of an MPM).

For each MPM, the single note must give (IFRS 18.121-124):

- a reconciliation to the most directly comparable subtotal specified by IFRS, showing the income-tax effect and the effect on non-controlling interests for each reconciling item;
- an explanation of how the measure is calculated and how it reflects management's view of performance;
- an explanation of any change to the measure or to how it is calculated; and
- a statement that it reflects management's view and is not necessarily comparable to similarly labelled measures of other entities.

In practice: The communications that pull a measure into scope - press releases, investor presentations, management commentary - are usually produced by investor relations, not the reporting function. Because these disclosures now sit inside the audited financial statements, they need the same controls, documentation and review as any other note. Get finance and communications talking early.

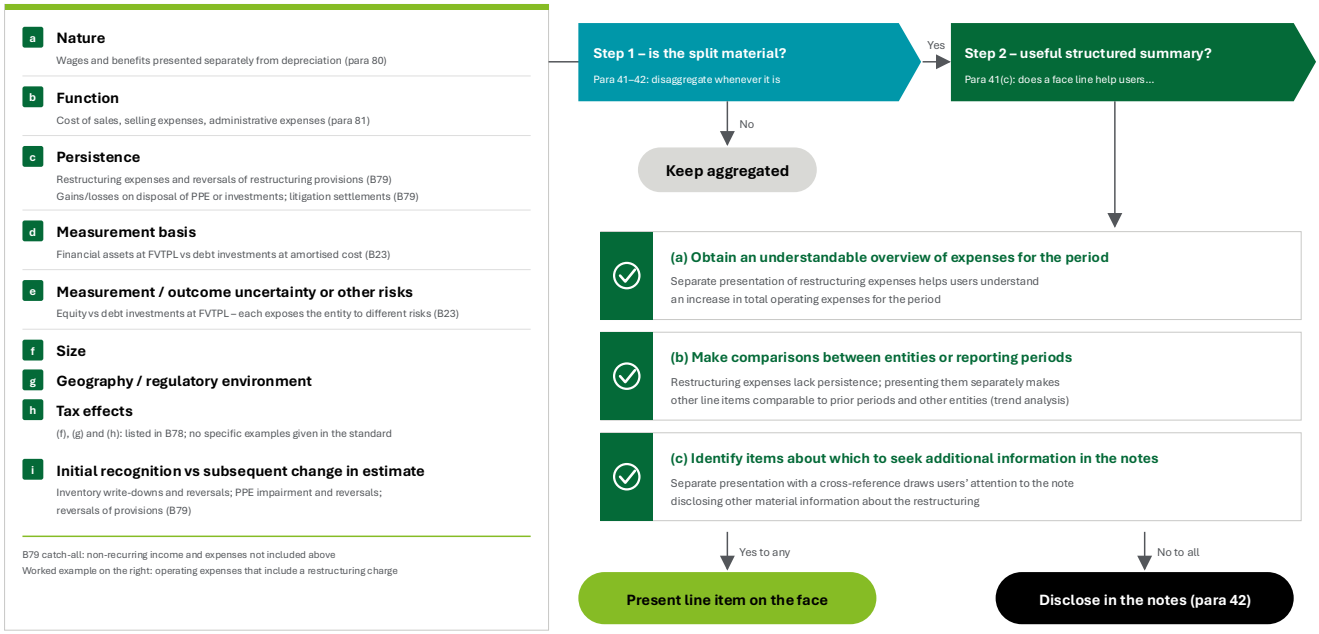
Do this now: list every published performance measure, run each through the three-question test, and confirm you can reconcile the ones that qualify on an item-by-item basis, including tax and NCI.

Step 4: Apply the grouping principles

IFRS 18 applies one set of grouping principles across assets, liabilities, equity, income, expenses and cash flows, and they drive both your primary-statement line items and your note disclosures. The principle is simple: **aggregate** items that share characteristics, **disaggregate** those that don't, and disaggregate wherever the result is material. It takes judgement, and that judgement must not override specific requirements in other standards or bury material information (IFRS 18.41).

Characteristics to weigh (IFRS 18.B78)

These characteristics are not an exhaustive checklist. Consider the relevant characteristics in the context of the items being grouped, applying judgement to determine the appropriate level of aggregation and disaggregation.



Labels, "other" and offsetting
Describe totals, subtotals and line items so they faithfully represent what they contain, explaining any terms or groupings a reader needs. Treat "other" captions with particular care: where the balance mixes items of different natures or functions, break it out into meaningful categories (IFRS 18.43, B24-26).

Do not offset assets against liabilities, or income against expenses, unless another standard requires or permits it - offsetting hides the transactions readers need to assess future cash flows. Measuring an asset net of a valuation allowance (accumulated depreciation, an obsolescence allowance, an impairment allowance) is **not** offsetting (IFRS 18.44-45; B27-28).

Present operating expenses in the way that gives the most useful structured summary: by nature, by function, or a mix (IFRS 18.78). If you present by function, disclose in the notes the depreciation, amortisation, employee benefits, impairment losses and inventory write-downs included in each operating line item (IFRS 18.83).

In practice: Generic captions are the most common casualty. If "other operating expenses" contains both depreciation and marketing costs, the two have different natures and belong on separate lines.

Do this now: review your current line items and note captions for anything mixed or labelled "other", and decide now how it should be split.

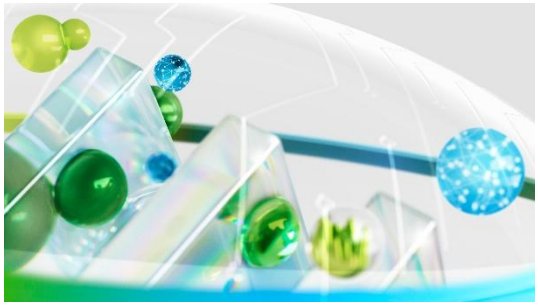
Step 5: Plan your transition: the year before adoption

Start preparing before IFRS 18 becomes effective. The year preceding adoption is an opportunity to assess the expected impact of IFRS 18, identify areas requiring change and plan for implementation.

IAS 8 (par 30-31) requires entities to disclose information about the expected impact of IFRS 18, in their financial statements for reporting periods preceding its initial application. Your transition note should address:

- **The new standard:** Identify IFRS 18 and describe the nature of the impending changes in accounting policy.
- **The effective date:** State that IFRS 18 applies to annual reporting periods beginning on or after 1 January 2027.
- **The planned adoption date:** Specify when the entity initially intends to apply IFRS 18.
- **The expected financial reporting impact:** Explain the impact that initial application is expected to have on the financial statements or, if the impact is not known or reasonably estimable, a statement to that effect.

What is expected from your disclosures? ESMA has emphasised the need for entity-specific and informative disclosures about the expected impact of new standards. Generic boilerplate statements should not replace a meaningful assessment. Given the significance of IFRS 18 and its forthcoming effective date, entities should provide a substantive assessment of its anticipated effects in the reporting periods preceding adoption.



Accordingly, entities should avoid relying solely on statements that management is still assessing the impact of IFRS 18. Instead, disclosures should reflect the progress made in the impact assessment and provide specific information about the expected changes, to the extent that this information is available.

Step 6: Implement IFRS 18: the year of adoption

Apply IFRS 18 retrospectively under IAS 8, which means restating your comparatives. For a December year end, the comparative period is the 2026 financial year, already under way, so capture the data as transactions arise rather than reconstructing it at year-end.

Period	What it means
Comparative period	Prepare comparative information on the IFRS 18 basis. Align the chart of accounts and start capturing the data needed to prepare the comparative figures.
First year of application	Apply IFRS 18 to the current reporting period, including interim financial reporting where applicable, and present restated comparative information in accordance with the transition requirements.
Earlier	Early application is permitted. If an entity applies IFRS 18 early, it must disclose that fact (IFRS 18.C1).

What to disclose on transition

- A reconciliation of **every line item** in the statement of profit or loss for the comparative period immediately before first application, between the restated IFRS 18 amounts and the amounts previously presented under IAS 1. You may, but need not, extend it to the current or earlier periods (IFRS 18.C3, C6).
- Transition relief: you need **not** disclose the line-item adjustment amounts, or the adjustment to basic and diluted EPS, that IAS 8 would otherwise require (IFRS 18.C2).
- In the first year, condensed interim statements must show every heading you expect to use under IFRS 18 plus the required subtotals, rather than the usual IAS 34 content, until your first annual IFRS 18 statements are issued (IFRS 18.C4-6).

Worth knowing - a one-off option for eligible entities: At the date of initial application, entities may take the opportunity to change their accounting policy for investments in associates and joint ventures from the equity method to fair value through profit or loss under IFRS 9. The change is applied retrospectively under IAS 8 and is available in separate financial statements prepared under IAS 27 as well. For investment entities and holding structures in particular, this is a one-off opportunity worth evaluating alongside the presentation changes (IFRS 18.C7).

> **Do this now:** fix your transition date, build the line-item P&L reconciliation into your 2026 close process, and decide whether early application suits your reporting narrative.

Step 7: Ready your systems, processes and controls

The requirements only work if the underlying data supports the new analysis. Six areas need early attention:

- **Chart of accounts.** Confirm every income and expense account maps to operating, investing or financing without a manual period-end adjustment.
- **ERP and consolidation flows.** Confirm operational events are captured with enough attributes to classify consistently across the group.
- **Reconciliations.** Reconcile the general ledger to the categorised statement of profit or loss, the MPM note and the transition reconciliations on a regular basis.
- **Segregation of duties.** Assign ownership of classification judgements separately from preparation of the underlying numbers.

- **Audit trail.** Keep support for key judgements - the main-business-activity assessment, the identification of MPMs, and aggregation decisions.
- **Review and approval.** Apply classification consistently across business units, so comparable transactions are not treated differently in different subsidiaries - unless a subsidiary's own main business activity requires it.



In practice: If a finance-systems project is already planned, build the IFRS 18 requirements into its scope. Configuring the categories and MPM data at the outset is far cheaper than retrofitting them once the standard applies.

A checklist for your board and audit committee

- **Systems readiness.** Can existing systems produce the categories, subtotals and transition reconciliations without manual intervention?
- **Custom measures.** Which published measures meet the MPM definition, and can each be reconciled item by item, including tax and NCI?
- **Stakeholder impact.** Will reported operating profit change in shape or amount, and which stakeholders: investors, lenders, covenant counterparties, the remuneration committee - need to understand that in advance?
- **Main business activity.** For banks, insurers and real-estate entities, how will interest, dividends and investment income be classified, and is that judgement documented?
- **Interim reporting.** Are we ready for the first-year interim requirements in 2027, not only the annual ones?

Turn compliance into an advantage

IFRS 18 is more than a presentation exercise. Operating profit is the measure most readers rely on, and for the first time the standard makes it consistent across entities. Decide early how your results will be presented and communicate the change on your own terms; entities that leave it to the final review are the ones left explaining it after the event.

How we can help

Our IFRS specialists work with entities at every stage of implementation:

- assessing how IFRS 18 affects your reporting framework and the shape of reported performance;
- identifying exposure in classification, aggregation and disclosure, including the identification of MPMs;
- designing and implementing a transition roadmap across systems, processes, controls and stakeholder communication; and
- delivering sector-specific workshops for finance teams and those charged with governance.

To discuss what IFRS 18 means for your organisation, please contact:



John Debattista
Audit & Assurance
Deloitte Malta
jdebattista@deloitte.com.mt
+356 2343 2625

Learn more: www.deloitte.com/mt/ifrs18

Deloitte.

Deloitte
Deloitte Place,
Triq l-Intornjatur, Zone 3,
Central Business District,
Birkirkara CBD 3050,
Malta

+356 2343 2000
info@deloitte.com.mt
www.deloitte.com/mt

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